




OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

January 15, 2009

TO: Phil Andrews, President, County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: Washington Suburban Sanitary Commission (WSSC)
FY10-15 Capital Improvements Program (CIP) and FY10 CIP Expenditures

I am pleased to transmit to you, in accordance with State law, my recommended FY10-15 Capital Improvements Program (CIP) and FY10 Capital Expenditures for Washington Suburban Sanitary Commission (WSSC).

WSSC's proposed FY10-15 CIP totals \$1,021 million, of which \$782 million is for Montgomery County and Bi-County Projects. The Commission is requesting \$163.2 million in FY10 capital expenditures for Montgomery County and Bi-County Projects, down \$1.7 million from the FY09 amount of \$164.9 million approved in May 2008. The net decrease is primarily attributable to lower expenditures for Bi-County water and sewer projects as they move through construction; offset in part by increased expenditures for the Damascus, Seneca, and Blue Plains Wastewater Treatment Plant (WWTP) Enhanced Nutrient Removal (ENR) Projects and for the Seneca WWTP Expansion Part 2 Project.

Spending Control Limits

I recommended and the Council has adopted Spending Control Limits for WSSC that include a maximum average rate increase of 9.5 percent for FY10 – a 1.5 percentage point increase over the 8.0 percent average increase approved for FY09. While this is less than the 12.9 percent increase that WSSC indicates is necessary to sustain a “same services” budget, it reflects the importance of striking a balance between meeting WSSC's urgent needs and limiting the impacts on customer bills in this difficult economy.

With the 9.5 percent rate increase under the Spending Control Limits adopted by the Council, WSSC would still have to make \$13.7 million in unspecified permanent reductions to balance its operating budget. Cuts of this magnitude will necessarily affect customer services

and could potentially impact capital spending. I strongly urge the Commission to ensure that the following high-priority programs and services are preserved when deciding on reductions:

- The increase in CIP-funded water and sewer reconstruction included as “Information Only” projects in the Commission’s Proposed FY10-15 CIP (see below).
- Expanded inspection of large pre-stressed concrete cylinder pipe (PCCP) – the type involved in the two devastating water main breaks that the County has experienced in recent months.
- Resources needed to complete current efforts to study and identify a permanent source of funding to meet WSSC’s infrastructure renewal needs.

These initiatives, which are critical to the preservation of WSSC’s aging infrastructure, must proceed and – to the extent possible – be intensified. WSSC should explore the possibility of delaying non-critical capital projects and taking other actions to ensure that these important programs continue. I would welcome the opportunity to work with Prince George’s County to reach a consensus on how to achieve these goals within the context of the Capital Program I am recommending here.

Blue Plains Advanced Wastewater Treatment Plant

The total cost of the five Blue Plains WWTP projects in WSSC’s Proposed FY10-15 CIP increased by \$9.3 million (1.0 percent) vs. the FY09-14 approved CIP. This increase reflected available Water and Sewer Authority (WASA) cost estimates when WSSC prepared its CIP. (WSSC adjusted WASA’s figures to include Commission overhead, to allow for the difference in WASA and WSSC fiscal years, and – in the case of the Blue Plains ENR Project – to eliminate contributions toward the cost of certain ENR facilities needed to handle excess flows from the District of Columbia.) After WSSC issued its proposed CIP, WASA released its own Proposed FY 2008-2017 CIP, which further refined its capital investment needs. WASA’s revised CIP included significant increases in the projected six-year costs for four of the five Blue Plains Projects. Together, the revised FY10 amounts are \$25.3 million over what WSSC estimated in its FY10-15 CIP, and the total revised six-year cost of the five projects is \$197.8 million over WSSC’s earlier estimate. The increases reflect revised cost estimates for the new digestion facilities, among other factors.

Under the 1985 Inter-Municipal Agreement, WSSC must pay for its share of the capital costs associated with the Blue Plains WWTP, as determined by WASA but subject to the adjustments by WSSC noted above. I recommend that WSSC’s Blue Plains WWTP project estimates be modified to align them with the revised amounts proposed by WASA (as adjusted by WSSC). The table on the next page shows the recommended changes.

The revised Blue Plains costs will entail a significant (\$25.3 million) increase in WSSC’s FY10 capital spending (vs. its Proposed FY10-15 CIP). This increase will require an additional \$18.6 million in WSSC bonds, which translates to a \$1.3 million increase in FY10

debt service. In view of the tight budget constraints WSSC is facing in FY10, the Commission needs to plan now how it will absorb the increased capital and operating costs associated with WASA's revised Blue Plains estimates.

Debt Capacity

State law provides for the option of a tax levy by Montgomery and Prince George's counties against all assessable property in the Washington Suburban Sanitary District to pay for the principal and interest on WSSC bonds. This provision, which would be exercised

BLUE PLAINS WWTP PROJECTS - COST COMPARISON							
(S000)							
Projects	6 YEAR TOTAL	FY10	FY11	FY12	FY13	FY14	FY15
<u>WSSC REQUEST</u>							
Liquid Train Projects, Part 2	17,425	8,287	3,626	566	663	1,302	2,981
Biosolids Management, Part 2	135,058	8,173	15,170	20,547	31,325	35,956	23,887
Biological Nutrient Removal	8,306	5,792	2,511	3	0	0	0
Plant Wide Projects	27,839	10,953	4,025	6,457	4,432	1,462	510
Enhanced Nutrient Removal	200,435	10,508	8,737	58,788	34,158	54,543	33,701
WSSC REQUEST TOTAL	389,063	43,713	34,069	86,361	70,578	93,263	61,079
<u>CE RECOMMENDED</u>							
Liquid Train Projects, Part 2	11,843	4,803	1,668	1,130	1,056	898	2,288
Biosolids Management, Part 2	208,897	16,351	46,498	59,836	59,449	24,778	1,985
Biological Nutrient Removal	45,955	21,344	16,434	7,366	798	13	0
Plant Wide Projects	56,437	18,126	18,944	9,917	7,552	1,423	475
Enhanced Nutrient Removal	263,762	8,413	20,277	75,404	77,975	60,851	20,842
CE RECOMMENDED TOTAL	586,894	69,037	103,821	153,653	146,830	87,963	25,590
Increase (Decrease)	197,831	25,324	69,752	67,292	76,252	(5,300)	(35,489)

only if requested by WSSC, does not constitute a pledge of the full faith and credit of the two counties. However, WSSC bonds are part of the County's overlapping debt. As of June 30, 2008, WSSC debt represented 48.0 percent of Montgomery County's gross overlapping debt. The amount of debt issued by WSSC is therefore a factor in rating agency assessments of the credit worthiness of Montgomery County.

WSSC's financial forecast (assuming implementation of its Proposed FY10-15 CIP and the Spending Control Limits adopted by the Montgomery County Council) indicates that debt service will increase by 46.6 percent by FY15 (vs. the FY09 level). (The six-year forecast assumes no PAYGO.) WASA's updated Blue Plains expenditure estimates will add to that debt requirement. As the Commission explores options for funding the reconstruction and rehabilitation of its aging infrastructure, it needs to pay close attention to the impacts of those options on WSSC's debt capacity and debt service requirements to ensure that they are not adversely affected.

Information Only Projects

While "Information Only" projects – which include the two water and sewer reconstruction projects – are subject to review and approval as part of the annual WSSC Operating and Capital Budget, they do not meet the criteria given in Article 29 of the Annotated Code of Maryland for inclusion in WSSC's CIP. WSSC shows such projects separately in its capital budget document to provide additional information on and context for its capital program. Expenditures for these projects are shown separately and are not included in the six-year CIP.

WSSC is proposing enhancements to its water and sewer reconstruction projects, including a 4 mile (14.8 percent) increase in water main replacement and a 10 mile (19.6 percent) increase in sewer reconstruction (see the following table). FY10 funding for water and for sewer reconstruction would increase 16.5 percent and 125.0 percent, respectively. Because of last year's failure to agree on a separate funding source for water and sewer rehabilitation, these two capital projects will constitute WSSC's *only* infrastructure reconstruction/renewal efforts in FY10. I strongly endorse the proposed increases and call on WSSC to try to find the means to further enhance this crucial effort.

WATER AND SEWER RECONSTRUCTION/REHABILITATION: FY10-15 Proposed vs. FY09-14 Approved									
	FY09 - 14 Approved			FY10 - 15 Proposed					
	FY09	6-Year	Total	FY10		6-Year		Total	
				Amount	% Change	Amount	% Change	Amount	% Change
Reconstruction Program									
Water Main Replacement (\$000)	45,340	366,116	410,188	52,812	16.5%	477,875	30.5%	524,794	27.9%
Sewer Reconstruction (\$000)	32,363	232,366	247,571	72,807	125.0%	489,482	110.7%	567,898	129.4%
Water Main Replacement (miles)	27	162	—	31	14.8%	186	14.8%	—	—
Sewer Reconstruction (miles)	51	306	—	61	19.6%	366	19.6%	—	—

As always, Executive Branch staff are available to assist you in your deliberations. I look forward to discussing with you any policy matters or major resource allocation issues that arise this spring.

Phil Andrews, President, County Council
January 15, 2009
Page 5

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Attachments: Executive Recommendation – Blue Plains WWTP: Plant Wide Projects
Executive Recommendation – Blue Plains WWTP: Biological Nutrient Removal
Executive Recommendation – Blue Plains WWTP: Biosolids Mgmt Pt. 2
Executive Recommendation – Blue Plains WWTP: Liquid Train Pt. 2
Executive Recommendation – Blue Plains WWTP: Enhanced Nutrient Removal
FY10-15 Executive Recommended CIP: Category Summary
Agency Request Compared to Executive Recommended

c: Timothy L. Firestine, Chief Administrative Officer
Teresa Daniell, Interim General Manager, Washington Suburban Sanitary Commission
Stephen Farber, Staff Director, County Council
Dave Lake, Department of Environmental Protection